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 City Council  
 City of Culver City  
 Culver City, California

In planning and performing our audit of the financial statements of the City of Culver City as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Culver City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be control deficiencies.

(1) Write off of Stale Receivable Balances

The General Fund of the City has an account with approximately \$700,000 of accounts receivable that are several years old. The City was unable to provide the auditors with information by specific payee. It is possible that these old receivables are no longer collectible. Additionally, the Redevelopment Agency has approximately \$2.7 million recorded as an Allowance for Uncollectible Notes Receivable. This account has not been reviewed since January 2008. It is possible that there are additional notes receivable that are no longer collectible.

Recommendation

We recommend that the City review old receivable accounts to determine collectability. If receivables are determined to be uncollectible, the City should write off those balances. This process should take place at least once a year for all of the City's receivable accounts.

(2) Adjustments Detected During the Audit

Paragraph 19 of SAS No. 112 requires the auditor to include in the report of internal control deficiencies any material adjustments detected by the audit process. Those adjustments included the following:

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(2) Adjustments Detected During the Audit, (Continued)

- Adjustment to reclassify certain expenses as capital assets on the balance sheet
- Adjustment to reclassify land held for resale in the Redevelopment Agency as land used by the Agency

Recommendation

We recommend that the Finance Department record these adjustments on an annual basis prior to the start of the audit.

(3) Comprehensive Antifraud/Ethics Policy

While making inquiries with management as required by *Statement on Auditing Standard No. 99 – Consideration of Fraud in a Financial Statement Audit*, it was noted that the City does not have a formalized all-encompassing fraud policy. A formal fraud policy can be an effective method of communicating and reinforcing an antifraud culture within the City. A fraud policy communicates to all employees the City's position and policy on matters such as the following:

- Risks that the City faces from fraud, abuse, and other forms of misconduct;
- An ethical code of conduct;
- Definitions of ethical misconduct, including fraud and abuse;
- Employee's responsibility to report suspected ethical misconduct (including an established reporting mechanism, such as a member of City Council, a designated member of City management, a hotline service, etc.);
- Organizational responsibility to investigate; and
- Disciplinary action for violations.

Recommendation

Internal control standards recommend that organizations develop and implement a formal antifraud policy. We recommend that the policy be acknowledged and signed by each employee upon his or her hire date, in conjunction with an orientation that includes an emphasis on ethical conduct. Some organizations also require that employees sign a copy of the policy on an annual basis as evidence of their reaffirmation that they understand the policy and have complied with its provisions. In addition, the City could conduct fraud control training for all employees, not just new employees, and release a periodic message from the City Manager stressing the importance of ethical conduct. We understand that the City has already drafted these policies.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. None of the items noted above are considered material weaknesses.

This communication is intended solely for the information and use of management, City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Irvine, California  
November 13, 2009